

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 FEA-02 INT-08 AGR-20 SEC-03 L-03 H-03 PA-04

PRS-01 USIA-15 DRC-01 /214 W
----- 038972

R 011920Z FEB 74

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7645
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING FEBRUARY 1

BEGIN SUMMARY: THE POUND ROSE SHARPLY AGAINST THE DOLLAR
AND OTHER LEADING CURRENCIES THIS WEEK AS A RESULT OF U.S.

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DECISION TO LIFT ALL ITS CAPITAL CONTROLS. STERLING'S

TRADE-WEIGHTED DEVALUATION NARROWED TO 17.0 PERCENT ON THURSDAY, JANUARY 31. GOLD MOVED DOWNWARD ALL WEEK CLOSING ON THURSDAY (JANUARY 31) AT \$132.00, DOWN \$9.50 FROM LAST THURSDAY'S CLOSE. THE LONDON STOCK MARKET FELL ON MONDAY, JANUARY 28, TO A SEVEN-YEAR LOW. ON THURSDAY, JANUARY 31, THE BANK OF ENGLAND ACTED TO EASE THE LIQUIDITY POSITION OF THE BANKING SYSTEM BY ANNOUNCING A RELEASE OF 1/2 PERCENT OF BANK AND FINANCE HOUSE SPECIAL DEPOSITS. END SUMMARY

1. THE POUND GAINED 4.5 CENTS IN LATE AFTERNOON TRADING TUESDAY, JANUARY 29 AS A RESULT OF DOLLAR WEAKENING CAUSED BY THE U.S. DECISION TO LIFT ITS EXCHANGE CONTROLS. THE POUND, WHICH HAD REACHED A LOW OF \$2.1750 AGAINST THE DOLLAR ON JANUARY 21, CLOSED ON THURSDAY, JANUARY 31, AT \$2.2770, UP 755 POINTS FROM LAST THURSDAY'S CLOSE AND 1,020 POINTS FROM JANUARY 21. STERLING'S TRADE-WEIGHTED DEPRECIATION AGAINST SMITHSONIAN RATES NARROWED A LITTLE OVER 1.5 PERCENT TO STAND AT 17 PERCENT COMPARED TO 18.6 PERCENT LAST THURSDAY. THIS IS THE SMALLEST PERCENTAGE DEVALUATION SINCE LATE NOVEMBER. GOLD MOVED STEADILY DOWNWARD FROM LAST THURSDAY'S RECORD HIGH OF \$141.50, CLOSING ON JANUARY 31 AT \$132.00.

2. PRICES FELL SHARPLY ON MONDAY, JANUARY 28, ON THE LONDON STOCK MARKET WITH THE FINANCIAL TIMES 30-SHARE INDEX FALLING TO 301.7, THE LOWEST IN SEVEN YEARS. THE FALL WAS CAUSED BY A GENERAL MOOD OF DEJECTION OVER THE COUNTRY'S ECONOMIC OUTLOOK WHICH INCLUDED THE THREAT OF AN ALL OUT STRIKE BY THE MINERS AND A FURTHER REDUCTION IN THE WORK WEEK. THE MARKET DID RALLY LATER IN THE WEEK, WITH THE FINANCIAL TIMES INDEX CLOSING ON THURSDAY AT 316.2 ON HOPES THAT A SOLUTION WOULD BE FOUND TO END THE MINER'S DISPUTE.

3. ON THURSDAY, JANUARY 31, THE BANK OF ENGLAND ANNOUNCED A RELEASE OF 1/2 PERCENT (ABOUT 150 MILLION POUNDS) OF BANK AND FINANCE HOUSE SPECIAL DEPOSITS HELD AT THE BANK OF ENGLAND. THE BANK, WHICH WILL RELEASE THE MONEY ON MONDAY, SAID THAT THE PRESENT TIGHTNESS OF MONETARY CON-

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DITIONS "IS NOT APPROPRIATE IN THE EXCEPTIONAL INDUSTRIAL SITUATION NOW PREVAILING." THE BANK POINTED OUT THAT

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SIL-01 FEA-02 INT-08 AGR-20 SEC-03 L-03 H-03 PA-04

PRS-01 USIA-15 DRC-01 /214 W
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R 011920Z FEB 74

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7646
INFO AMEMBASSY BERN
AMEMBASSY BONN
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THE BANK'S RESERVE RATIO "HAS BEEN UNDER STRONG PRESSURE
IN THE PAST TWO WEEKS AS A RESULT OF A LARGER EXCHEQUER
SURPLUS THAN WAS FORESEEN. MONEY MARKET RATES HAVE IN
CONSEQUENCE RISEN TO LEVELS OF 16 PERCENT OR MORE." THE
OFFICIAL ATTEMPT TO TIGHTEN MONETARY POLICY TOWARDS THE
END OF 1973 HAS THUS BEEN ADJUSTED ONCE AGAIN TO DEAL
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WITH THE EMERGENCY SITUATION. THE 1/2 PERCENT RELEASE OF SPECIAL DEPOSITS FOLLOWS AN EARLIER DECISION NOT TO GO AHEAD WITH THE OTHER HALF OF THE 2 PERCENT CALL FOR SPECIAL DEPOSITS MADE IN MID-NOVEMBER.

4. THE FORWARD DISCOUNTS ON STERLING WIDENED SHARPLY ON JANUARY 30 IN RESPONSE TO ANNOUNCEMENT OF REMOVAL OF U.S. CAPITAL CONTROLS. ONE MONTH WAS 4.12-1/2 CENTS, THREE MONTHS WAS 7.37-1/2 CENTS AND SIX MONTHS WAS 10.90 CENTS. ON THURSDAY, THE DISCOUNTS FELL BACK TO MORE NORMAL LEVELS.

	1/24	1/31	CHANGE
1 MONTH	2.13-1/2	2.87-1/2	UP 0.74
3 MONTHS	4.95	5.95	UP 1.00
6 MONTHS	8.45	9.75	UP 1.30

(ALL FIGURES IN CENTS)

5. LOCAL AUTHORITY DEPOSIT RATES MOVED UPWARD DURING THE WEEK.

	1/24	1/31	CHANGE
1 MONTH	15-1/4	16	UP 3/4
3 MONTHS	15-13/16	16-3/16	UP 3/8
6 MONTHS	15-1/2	15-3/4	UP 1/4

6. EURO-DOLLAR RATES MOVED DOWNWARD IN RESPONSE TO U.S. ANNOUNCEMENT.

	1/24	1/31	CHANGE
1 MONTH	9-1/8	8-3/4	DOWN 3/8
3 MONTHS	9-1/8	8-3/4	DOWN 3/8
6 MONTHS	9-1/8	8-3/4	DOWN 3/8

7. THE MINIMUM LENDING RATE WAS REDUCED FROM 12-3/4 PERCENT TO 12-1/2 PERCENT ON FRIDAY, FEBRUARY 1.

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